



# VIRGINIA MILITARY INSTITUTE

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2022

Auditor of Public Accounts  
Staci A. Henshaw, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)  
(804) 225-3350



## AUDIT SUMMARY

We have audited the basic financial statements of the Virginia Military Institute (Institute) as of and for the year ended June 30, 2022, and issued our report thereon, dated May 23, 2023. Our report, included in the Institute's basic financial statements, is available at the Auditor of Public Accounts' website at [www.apa.virginia.gov](http://www.apa.virginia.gov) and at the Institute's website at [www.vmi.edu](http://www.vmi.edu). Our audit found:

- the financial statements are presented fairly, in all material respects;
- internal control findings requiring management's attention; however, we do not consider them to be material weaknesses;
- instances of noncompliance or other matters required to be reported under Government Auditing Standards; and
- the Institute has not taken adequate corrective action with respect to findings reported in the prior year.

## - TABLE OF CONTENTS -

### Pages

AUDIT SUMMARY

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

1

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

2-3

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS

4-6

INSTITUTE RESPONSE

7

INSTITUTE OFFICIALS

8

## STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

### **Ensure Proper Documentation of Bank Reconciliations**

**Type:** Internal Control

**Severity:** Significant Deficiency

**Repeat:** Yes (first issued in fiscal year 2021)

The Virginia Military Institute's (Institute's) Finance and Budget Office should continue to improve internal controls over the bank reconciliation process. In the prior year audit, we noted the Institute did not timely perform or adequately document the preparation and review of the monthly bank reconciliation process. Since the prior year, the Institute has worked to fill vacant positions within the Finance and Budget Office to address this issue; however, corrective action remains ongoing. Due to ongoing corrective action during the period under audit, we performed a limited review of this area. Institute management should continue to implement corrective actions related to the bank reconciliation process.

### **Improve Controls over Terminated Employees**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Yes (first issued in fiscal year 2020)

The Institute's Human Resources Office is making progress to address improving internal controls over the performance of required termination procedures. In the prior year audit, we noted the Institute did not consistently and timely perform required termination procedures for employees that terminated employment. While the Institute has not completed corrective action, it is working to review current termination procedures and develop mandatory and trackable training regarding the termination procedures. Institute management should continue to implement corrective actions related to the termination process.

### **Ensure Compliance with Conflict of Interests Act**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Yes (first issued in fiscal year 2021)

In fiscal year 2021, we determined that the Institute was not ensuring that all employees in a position of trust completed the required training every two years. Since the prior year audit, the Conflict of Interests Act (COIA) Coordinator has reviewed and updated the list of employees required to take the training and is working to establish a tracking mechanism to monitor the training requirements, however, corrective action remains ongoing. Therefore, we did not review this area during the current audit. The COIA Coordinator should continue to implement corrective action to ensure compliance with the Conflict of Interests Act.

## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### **Conduct Information Technology Security Audits**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

The Institute does not require external auditors that review its information technology (IT) systems to conduct these reviews in accordance with an established auditing standard framework such as generally accepted government auditing standards (GAGAS), American Institute of Certified Public Accountants (AICPA) Standard for Consulting Services, or the AICPA Statements on Auditing Standards. As a result, the Institute's recent assessments over its two sensitive systems do not include a full review of controls that comply with the Institute's IT Policy (Policy), IT-100, and the Commonwealth's IT Security Audit Standard, SEC 502 (IT Audit Standard).

The Policy requires on-premise sensitive systems to receive an IT security audit every three years. Additionally, the IT Audit Standard requires for all IT security audits to follow an established auditing framework, assesses the effectiveness of the system controls, and measure compliance with the applicable Commonwealth IT Risk Management Policies and Standards (IT Audit Standard, Sections 1.4 Scope and Frequency of IT Security Audits; 1.5 IT Audit Frameworks; 2.2 IT Security Scope). Without conducting IT security audits over all sensitive systems at least once every three years, the Institute may not detect and mitigate weaknesses affecting its IT environment. Additionally, malicious parties can exploit the unmitigated weaknesses to compromise the Institute's sensitive systems.

The Institute hired an external auditor to perform an IT security audit over its two sensitive systems. However, due to the Institute's lack of documented requirements for the external auditor to follow an established auditing framework, the external auditor only conducted a risk assessment for each sensitive system.

The Institute should ensure its sensitive systems receive an IT security audit conducted in accordance with an established auditing framework once every three years. Additionally, the Institute should specify compliance requirements for outsourced work and maintain oversight of its external contractors to verify the contractors complete work as required. This will help to ensure the confidentiality, integrity, and availability of Institute's sensitive and mission-critical data.

### **Develop a Baseline Configuration for the Operating System Server Environment**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

The Institute does not have a documented baseline configuration for a server's operating system that supports its accounting and financial reporting system. As a result, the Institute does not have documented justifications for five information security controls that deviated from industry best practices, which we communicated in a separate document marked Freedom of Information Act Exempt

(FOIAE) under § 2.2-3705.2 of the Code of Virginia due to its sensitivity and description of security mechanisms.

Baseline security configurations are essential controls in IT environments to ensure that systems have appropriate configurations and serve as a basis for implementing or changing existing information systems. Without a properly documented baseline configuration in place, the Institute introduces the risk that the system's configurations and controls are not set properly, which could increase the risk of unauthorized use of the system by malicious actors and result in unnecessary exposure of the Institute's sensitive data. Additionally, the lack of a documented and comprehensive baseline configuration places the Institute at risk of maintaining its security posture in the event of staffing shortages and turnover.

While the Institute corrected the configuration settings noted in the FOIAE document during the audit, the Institute's lack of a formal baseline configuration caused the Institute to not have formal justifications and compensating controls outlined for the deviations for staff to reference. The Institute should document and implement a detailed baseline security configuration that is based on its information security standard, the Commonwealth's Information Security Standard, and industry best practices. The baseline should include deviations from recommended and expected security configurations and the Institute's business justification and compensating controls for the deviations based on its evaluation of organizational risk. The Institute should also ensure its baseline configuration and the system's configuration align on a scheduled basis and update both, as necessary.



Staci A. Henshaw, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

May 23, 2023

The Honorable Glenn Youngkin  
Governor of Virginia

Joint Legislative Audit  
and Review Commission

Board of Visitors  
Virginia Military Institute

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate discretely presented component units of the **Virginia Military Institute** (Institute) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements and have issued our report thereon dated May 23, 2023. Our report includes a reference to other auditors who audited the financial statements of the component units of the Institute, as described in our report on the Institute's financial statements. The other auditors did not audit the financial statements of the component units of the Institute in accordance with Government Auditing Standards, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the component units of the Institute.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control titled "Ensure Proper Documentation of Bank Reconciliations," "Improve Controls over Terminated Employees," "Ensure Compliance with Conflict of Interests Act," "Conduct Information Technology Security Audits," and "Develop a Baseline Configuration for the Operating System Server Environment," which are described in the sections titled "Status of Prior Year Findings and Recommendations" and "Internal Control and Compliance Findings and Recommendations," that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, which are described in the sections titled "Status of Prior Year Findings and Recommendations" and "Internal Control and Compliance Findings and Recommendations" in the findings titled "Improve Controls over Terminated Employees," "Ensure Compliance with Conflict of Interests Act," "Conduct Information Technology Security Audits," and "Develop a Baseline Configuration for the Operating System Server Environment."

### **The Institute's Response to Findings**

We discussed this report with management at an exit conference held on April 25, 2023. Government Auditing Standards require the auditor to perform limited procedures on the Institute's response to the findings identified in our audit, which is included in the accompanying section titled "Institute Response." The Institute's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Status of Prior Findings**

The Institute has not taken adequate corrective action with respect to the previously reported findings “Ensure Proper Documentation of Bank Reconciliations,” “Improve Controls over Terminated Employees,” and “Ensure Compliance with Conflict of Interests Act.” Accordingly, we included these findings in the section titled “Status of Prior Year Findings and Recommendations.”

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Staci A. Henshaw  
AUDITOR OF PUBLIC ACCOUNTS

AVC/vks

**VIRGINIA MILITARY INSTITUTE**  
LEXINGTON, VIRGINIA 24450-0304

Finance and Budget  
Office: 540-464-7270  
Fax: 540-464-7794

5 May 2023

Staci Henshaw, CPA  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Dear Ms. Henshaw:

The Virginia Military Institute has reviewed the findings and recommendations provided by the Auditor of Public Accounts for fiscal year ended June 30, 2022.

Management agrees with all findings, and we have immediately commenced the formulation and implementation of remediation.

If you have any questions or need additional information, please do not hesitate to contact me by phone at (540) 464 -7216 or by email at [brownps@vmi.edu](mailto:brownps@vmi.edu)

Most Respectfully,



Pamela S. Brown  
Assistant Director of Finance and Budget, Virginia Military Institute



## **VIRGINIA MILITARY INSTITUTE**

As of June 30, 2022

### **BOARD OF VISITORS**

Thomas R. Watjen  
President

Lara T. Chambers  
Vice President

David L. Miller  
Vice President

Eugene Scott, Jr.  
Vice President

Charles E. Dominy

Hugh M. Fain, III

J. Conrad Garcia

Conrad M. Hall

Michael L. Hamlar

Richard K. Hines, V

Lester Johnson, Jr.

E. Sean Lanier

Gussie A. Lord

Scot W. Marsh

Joseph R. Reeder

A. Damon Williams

Timothy P. Williams

Kevin A. Ryan  
Secretary of the Board of Visitors

### **INSTITUTE OFFICIALS**

Cedric Wins  
Superintendent

Dallas B. Clark  
Deputy Superintendent for Finance, Administration and Support